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SUBJECT: FRANCE: TOUR D'HORIZON WITH TOTAL CEO

Ref: 03 Paris 8019

1. (SBU) SUMMARY. Over lunch with the Ambassador January 13, Total CEO Thierry Desmarest provided a wide-ranging overview of developments in the world oil and gas sectors. Among the highlights were his description of Total's activities in Iran and Libya, and his view of China's aggressiveness in securing worldwide energy supplies. END SUMMARY.

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BACKGROUND  
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2. (U) The Ambassador hosted Total CEO Thierry Desmarest January 13 for a wide-ranging discussion of global energy developments. Desmarest was joined by his Executive VP for Exploration and Development Christophe de Margerie. DCM, EconCouns and PolCouns accompanied the Ambassador.

3. (U) Total is France's largest company, and the result of the amalgamation of the historic French Total, Belgian Petrofina and French state oil company Elf-Aquitaine. Having consolidated its name and logo in 2003, the Total Group claims to be the fourth largest international oil and gas company in the world (after ExxonMobil, BP Amoco, and Royal Dutch Shell, and just ahead of ChevronTexaco), operating in more than 130 countries with over 110,000 employees. Total's worldwide operations are conducted through three business segments: upstream, downstream, and chemicals. Now completely privatized, 60 percent of Total's shareholders come from the euro zone, 20 percent from North America and 20 percent from the UK. Total is the predominant oil and gas company in Africa and is the number two international company in the Middle East.

4. (SBU) Asked by the Ambassador about reports that Total may be looking to sell its chemicals business, Desmarest said that the company is satisfied with its petrochemical and specialty chemical operations, but would likely spin off its intermediate (industrial) chemicals business. Liability issues are clearly a factor, as Desmarest noted that legal suits in this sector are a danger for "a deep-pocketed company." (For example, Desmarest claimed that a September 2001 explosion at their chemical fertilizer plant in Toulouse cost the company \$1.5 billion after insurance compensation.)

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U.S. OPERATIONS  
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5. (U) Although Total sold its 55% stake in its North American arm, Total Petroleum, to Ultramar Diamond Shamrock in 1996, the company still has a number of activities in the U.S. dating from its absorption of Petrofina and Elf. These include a Petrofina refinery, some of Elf's chemical business and some deepwater Gulf of Mexico operations. U.S. investors own some 20 percent of Total's equity.

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WORLD OIL PRICE OUTLOOK AND CHINA  
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6. (SBU) Desmarest believes that we should see oil prices of US\$30-35 per barrel (Brent) later this year, noting that prices have dropped considerably already from their peak of \$52 in November. He expects this level to be acceptable to OPEC and especially the Saudis, who balance their accounts at a price level of \$25-27 per barrel. Mild winters in Europe and North America should help.

7. (SBU) Desmarest described the Chinese as extremely aggressive in securing access to global energy supplies. China alone accounts for 40 percent of new demand, he claimed, and gaining access to oil and gas is clearly a major priority for Beijing. Asked where the Chinese have been active, Desmarest said it's sufficient to follow the travel itineraries of top Chinese leadership, especially in Africa, the Middle East and Central Asia. (See also related comments in reftel para 8.) This Chinese assertiveness in

the sector is relatively new, and in sharp contrast to China's previous lackadaisical activity on energy issues.

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IRAN AND ILSA SANCTIONS  
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18. (SBU) We have followed closely Total's pursuit of energy interests in Iran. In 1995, the year Thierry Desmarest became CEO, Total contracted to develop two large oil and gas fields in Iran, despite USG pressure not to do business there. The next year, Total led a consortium, including Russia's Gazprom and Malaysia's Petronas, in a \$2 billion investment in Iran's gas sector, just days after selling its 55% stake in its North American arm, Total Petroleum, to Ultramar Diamond Shamrock. December 2004 press reports said that Total (with partner Petronas) had signed a "framework" agreement with Iran for the Pars LNG project and the related development of Phase 11 of the South Pars gas project.

19. (SBU) Asked about the December press reports, Desmarest confirmed that Total has signed a contract to undertake one year of engineering design and cost evaluation studies for the LNG project. He noted that the South Pars field is divided between Qatar and Iran, and the Iranian government is concerned it may lose out as development and exploitation of the field on the Qatari side far outpaces Iranian efforts. (Total is number two in the energy sector in Qatar.) Should the South Pars engineering and cost studies prove positive, investments on the order of \$4-5 billion could begin as early as 2006. (Comment. Desmarest has commented frequently that Total consults with its U.S. shareholders and U.S. legal counsel with an eye to ILSA sanctions implications of its actions. End Comment.)

110. (SBU) Overall, Desmarest described Iran as a difficult partner with which to negotiate contracts, particularly due to serious internal divisions, but a good partner in the implementation of signed contracts. Iran is too important an energy provider to ignore, in his view -- world number two in natural gas (15-20 percent of world reserves) and number three in oil (10 percent of reserves). If Western firms do not take on the business, Desmarest argued that China and India would step in to do so.

111. (SBU) The Ambassador reminded Desmarest of U.S. law regarding investment in Iran. There are important global and regional issues at stake in Iran, and the West needs to gauge closely how Iran performs on issues such as Iraq stabilization, nuclear non-proliferation, and support for terrorism. Desmarest commented that the Pakistan/India example made it much more difficult to convince Iran to give up its nuclear aspirations.

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IRAQ  
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112. (SBU) Desmarest noted Total's historical ties to Iraq and its efforts even under Saddam Hussein to maintain a foothold in the country. The company "was born in Iraq" after World War I to develop Iraqi oil supplies. Total tried in the 1990s to preserve a presence in the country, but the Saddam regime refused to sign any contracts that recognized UN sanctions then in effect. Desmarest says Total will be interested in international contracts expected to be opened in the Iraqi energy sector in 2005 or 2006. Desmarest had attended meetings earlier in the day with visiting Iraqi President Yawar. The company maintains good contacts in the sector and Desmarest expressed admiration for how much of the energy infrastructure Iraq's engineers were able to maintain during the sanctions period.

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RUSSIA, LIBYA AND OTHER SUPPLIERS  
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113. (SBU) RUSSIA: Desmarest said the past six months have been bad for the Russian energy sector. The Yukos affair has raised serious questions about the climate for doing business and has called into question at times who is actually making decisions at the helm of the Russian economy. Desmarest said that while Putin and the Russian leadership may have had valid political reasons for going after Khodorkovsky, they have done so in the most destabilizing manner possible from a business investment perspective. With obvious frustration, Desmarest related that Total has had to go before a state monopoly commission in an attempt to purchase a 25 percent stake in a Russian gas company that holds only a five percent market share, despite Gazprom's 85 percent stranglehold on the sector.

114. (SBU) LIBYA: Desmarest described doing business with Libya as "surrealistic". The long-term potential is huge, but the process is "crazy". He noted that, for the moment, the Libyan government is overreaching in trying to profit from its newfound international acceptability. Recent energy sector tenders, for example, have featured secondary

concession areas of marginal interest on very bad terms. One set of tenders for exploration/development attracted 130 bids from 68 companies -- when there do not exist 68 qualified companies worldwide to do such work, implying that some well-connected Libyans may be attempting to cash in on the current environment. Desmarest did note that the Libyans have been quite sage in one area, "cleverly" holding aside historic U.S. concession areas during the long dark days of U.S.-Libyan tensions.

15. (SBU) SUDAN: With its partner Marathon Oil, Total has recently signed a contract with the Government of Sudan for southern Sudan energy concessions. The agreement was completed before the recent peace treaty signing in order to ensure its validity post-treaty, as the treaty prescribes. Desmarest noted that Sudanese authorities tried to use the interest of an Indian competitor (ONGC Ltd. India) to wrest better terms from Marathon/Total. Such competition from both India and China is increasingly evident in international negotiations.

16. (SBU) AZERBAIJAN AND KAZAKHSTAN: Desmarest noted that Total is active in both countries. With the exception of British Petroleum, most recent exploration efforts in Azerbaijan have been disappointing. Kazakhstan shows more promising potential, but Desmarest described the Kazakhs as much more difficult to work with.

17. (SBU) VENEZUELA: Desmarest describes Total as the largest investor in Venezuelan energy (several billion dollars), along with Chevron Texaco. While President Chavez is viewed as erratic, Desmarest says he has told Total executives "don't listen to my words", and the GOV has generally been a good investment partner, despite a recent unilateral change in previously-agreed energy sector royalties.

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LEARNING FROM THE SHELL DEBACLE  
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18. (SBU) Desmarest ascribed Shell's recent problems over energy reserve estimates to its historical bipolar British/Dutch structure and the existence of too many "separate baronies" in its organization. Not surprising for a Frenchman, Desmarest prefers central management and believes that Shell's regional managers often have too much autonomy. While expressing admiration for the company's overall record, he noted that Shell is "an 80-year-old marriage that has yet to be consummated."

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BIOGRAPHIC NOTE  
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19. (SBU) Desmarest has been CEO of Total in its various forms since 1995. He is a serious, personable businessman, and has been a straight talker with Embassy contacts. Age 59, he is a graduate of the Ecole Polytechnique and of the Ecole des Mines, and has been employed with Total since 1981 after a decade as a mining and energy industry technical expert in the French government. He speaks excellent English.  
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